

Structural and Institutional Aspects of Corruption*

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Introduction

In recent months, corruption in high places has been prominently featured in the international press. Perhaps the two most striking aspects of this news coverage are these: first, attention is heavily concentrated not on the less-developed countries but, rather, on nation-states, many of them liberal democracies, that have been around for a long time; second, it is claimed, but with little time perspective, that the levels of corruption revealed are without historical precedent.

Examples of this media coverage abound. One thinks of France, where Socialist misbehavior has led to resounding electoral defeats of Mitterrand's once-proud party. Or Spain, where another Socialist party, riddled by scandals, has placed in jeopardy the political fortunes of Filipé Gonzalez. In Italy, the Italians themselves, rocked by the exposés associated with the "Clean Hands" and "Kickback City" investigations, have come to believe that they hold the world record in political corruption. Their enraged reactions have produced an electoral upheaval that has decimated the Christian Democratic and Socialist parties and brought to the prime

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ministership Silvio Berlusconi, whose Go Italy! Party did not exist a few months ago and whose cabinet now includes several neo-fascist ministers. And even in staid Japan, where the Liberal Democrats held sway for several decades, scandals have created a degree of political confusion the consequences of which will remain unclear for some time to come.¹

Instances of this kind could easily be multiplied, the point being that no contemporary democratic society, to say nothing of the countries of Eastern Europe and the former Soviet Union, would get a complete bill of health where corruption is concerned. The much more basic point is however another: the widespread political turmoil associated with the issue of corruption is, in my view, a manifestation of a much deeper and more persuasive loss of public confidence in the institutions and processes of democracy. Even in some of the press reports one can discern echoes of the misgivings about democracy that one finds in the writings of Benjamin Constant, Thomas Hobbes, Vilfredo Pareto, Gaetano Mosca, and so many other writers identified with anti-democratic thought.²

Inevitably, the debates about corruption come to focus on the shortcomings, alleged or demonstrated, of representative institutions—like national legislatures and, even more important, political parties (Pareto, 1964). Without the latter, as Schumpeter and so many others have shown, representative democracy is an impossibility. Thus, one can certainly admire the intentions of French, Italian, and other citizens of democracies to remove miscreants from public office and to hold future elected and appointed officials to much higher standards of morality. However, one must also guard against the tendency—exceedingly dangerous for democracies—to confuse specific discredited political leaders with the institutions themselves, which the latter may have betrayed. Failure to do so, as we have already learned in this century, can readily lead to radical and potentially undemocratic political and constitutional reforms.

The purpose of this paper is to clarify the meaning of the term corruption, to identify a number of structural conditions that give rise to it, and then to underscore, by illustration, that the institutional framework of corrupt behavior necessarily encompasses not just the state and its key institutions but major sectors of civil society as well. The burden of this exercise will be to show that in the growing efforts to combat corruption, little progress can be made unless this type of clarification becomes an integral part of the reformist dialogue itself.

Corruption Defined

Corruption, as anyone knows, is a ubiquitous aspect of the exercise of governmental power and the transactions that go with it. It is neither the invention nor the monopoly of the less-developed countries, which, often as not, are simply places in which forms of corruption, honed for centuries in the past, are practiced today.³ Corruption may not be the world's oldest profession, but as one writer noted earlier in this century (Davis, 1910, p. 13), it was present in the electoral behavior of the Roman Republic. "In the last days of the Republic," Davis notes, "the trading in votes rose to such a height that . . . in 55 B.C. a new law struck at what was probably the most flagrant form of corruption," namely, payments made to *interpretes* on the basis of how many votes they were able to deliver to the interested candidates.⁴ What was true in Rome has in the intervening centuries remained, in one form or other, a recurring practice whenever and wherever the suffrage has been extended to large numbers of persons.

Note that Davis writes that the Romans, like those who have followed, reacted to such unsavory practices by passing legislation that made them illegal and subjected violators of these formal norms to fines and other more severe forms of punishment. The question of law, as I will show in a moment, is of fundamental importance in the sense that it goes to the

heart of what it is societies in different places and at different times deem to identify as corrupt behavior (Scott, 1972, Chs. 1-3; LaPalombara, 1974, pp. 402-17).

The term corruption can be and is applied to a very wide spectrum of human behavior and institutions. Business and commercial transactions, the administration of religious or educational organizations, marital or familial relationships, the effect of books or the mass media on the morals of the young or old—all of these things and more may be called corrupt in the same sense as we may describe them as being “rotten.” My usage here is much more restrictive and is, indeed, essentially legalistic (Scott, 1972, pp. 5-6). As a working and generally recognized definition, we may say that corruption is behavior by a public servant, whether elected or appointed, which involves *a deviation from his or her formal duties* because of reasons of *personal gain* to himself or herself or to other private persons with whom the public servant is associated. Corruption, however, requires two or more parties to a transaction, at least one of whom holds a position of public trust and/or exercises a public role, and another (or others) of whom acts in a private capacity. The latter may be, of course, individual persons, legal persons in the private sector (such as banks, corporations, trade unions, or formal associations), or collectivities, such as a tribe, ethnic group, extended family, political party or club, and so on. The first point is that for corruption to exist, there must occur a deviation from a public role.

Furthermore, the corrupt “behavior” may be either passive or active. That is, it may include a *failure to act* on the part of a public official—as in cases where existing laws or regulations are not enforced or are enforced only in part, or selectively, in order to favor the other person, persons, or organizations involved in the transaction. It goes without saying that a great deal of corruption, especially when it involves bureaucrats and regulators, is of this latter variety.

Corruption, as defined, is not necessarily tied to a particular type of political regime. It may occur in repressive or

democratic regimes, in political systems that are ruled by aristocratic elites or by representatives of mass publics, in polyarchies that are open to many organized interest groups, or in corporatist systems that provide access to policy-making or policy-implementation only to certain so-called functional groups. In any political system, corruption can exist only in circumstances where a transaction occurs whose ends are achieved through a breaching of the formal norms of public office.

Finally, to flesh out this working definition, it should be clear that corruption can occur even where there is no exchange of cash or other material inducement, as where favors or status are illegally conferred by public servants for reasons of personal attachment or loyalty—to a political party, a kinship or ethnic group, personal friends, a village, a trade union, industrial corporation, or what have you.⁵

Corruption and the Law

Without formal law that defines and prohibits certain acts, the question as to whether a given act is or is not corrupt would be moot, a matter of opinion. Without such law, we might find ourselves at odds over whether or not a given transaction violates ethical norms, or whether a given act warrants moral condemnation. But so long as formal law does not define a specific form of behavior on the part of a public official, on the one hand, and one or more other private persons, on the other, as illegal, such transactions would not qualify as corrupt, in the sense that I have defined this term.

Moral Relativism? An obvious objection to this posture is that it invites moral relativism. That is, as a practical matter, to leave the identification of corrupt acts to individual political systems or jurisdictions may actually encourage some persons to deviate, in certain national settings, from powerful norms and indeed specific laws that apply at home. A typical example

would be the manager of an American multinational corporation who pays out bribes or kick-backs in a foreign country because, the argument would go, these behaviors are perfectly acceptable in the latter.

In today's world, this is less of a problem than some moral philosophers, ethicists, or others might think. The truth is that the formal laws of, for example, the so-called Third World countries are almost invariably at least as encompassing and severe as is true of countries we label as modern or developed (Scott, 1972, p. 6). It is condescending, if not racist, for Westerners to claim, as they often do, that to be less developed, politically speaking, means to countenance acts that in more enlightened countries are formally prohibited.⁶

A second point about law is that, over time, it can and will come to define as corrupt acts on the part of public servants which, formally speaking, were not so designated earlier. Two centuries ago, and well into the nineteenth century in some cases, countries like France and Britain accepted as perfectly normal and legitimate such things as the sale of public office, tax farming, and, above all, the highly particularistic administration of customs duties and fiscal laws, as well as all manner of governmental regulations. In these and other democratic systems, including the United States, if you wanted a favor from government, or even if you wished that public servants would give you what, at law, was your just due, you simply paid for it. Unless, of course, you were already a member of the powerful political elite (Namier, 1961; Swart, 1949; Ashton, 1956; Gash, 1956).

Under the impetus of reform movements, such as the Progressive Movement in the United States early in the present century, new laws were enacted to redefine as illegal acts on the part of public servants that had hitherto been accepted as the normal way of conducting the business of government. In the decades that followed, in many democratic systems, there occurred campaigns designed to encourage "clean government," particularly in matters that involved regulations,

taxation, and procurement by the state. Typically, it was in these areas that corruption, as defined above, occurred. Needless to add, these clean-government campaigns have never entirely brought corruption to heel, even within the most advanced and modern democracies.⁷

In the era of decolonization that followed World War II, most of the former colonies, the so-called new nations, had not only incorporated similar norms into their system of laws, they were actually more specific and thorough-going in their designation of corrupt behavior and much more severe, at least as the laws were written, regarding the punishments that attached to deviant acts.⁸

Enforcement of Anti-Corruption Laws. In many of these places, the problem was and remains, of course, that of consistent and even-handed law enforcement. In many countries of Asia, Africa, and Latin America, and now in Eastern Europe as well, the laws against corruption are simply not enforced. Or existing laws, including draconian prohibitions against corruption, may be highly unsophisticated—in the sense that they do not acutely address forms of corrupt behavior that are indigenous to advanced industrial market-oriented societies. Today, Russia and Ukraine are dramatic examples of countries where the first “fruits” of new market systems are so appallingly poisoned by corruption, dozens of new laws designed to cope with this degeneration are now being proposed. As in the past, these “less-developed” countries will ape the legislation of the West and perhaps render it even more severe. But the trick will remain to enforce such formal prohibitions.

Impediments to Law Enforcement. If existing laws against corruption are not enforced, it is important to understand why this may be so. Here are some of the major reasons for this lack of congruity:

(a) In some countries, the newer laws may run counter to deeply and widely held values. One thinks of such values as obligations to one's family, tribe, ethnic group, or geographic

region. Where it exists, this structural condition is formidable, in that persons in both the public and the private sectors will often not hesitate to violate written laws, particularly if they are interpreted to run counter to older and powerful moral codes (Scott, 1972, pp. 10–13).

(b) In other countries, the political parties formed before or after decolonization or following the abolition of earlier dictatorial one-party regimes developed voracious appetites that could only be gratified by the redirection of local and foreign moneys from public to private purposes. Look at it this way: if, following decolonization, one were interested in developing political parties of national scope in places like India or Pakistan, Nigeria, Ghana or Uganda, Indonesia, Malaysia or the Philippines, from where was all of the money to do this to come!

A similar pattern is now apparent in the countries that once constituted the Soviet Union and the Soviet Bloc. It is clear, for example, that the programs of privatization of so much property that was once held by the state also provide opportunities that make possible the financing of the many political parties that have mushroomed there in recent years. These bureaucratic party structures consume large-scale resources that certainly do not come from individual contributions made by ordinary citizens or organizations in the private sector. If political parties, essential to mass-based representative democracy, are to flourish, the ways and means of financing these organizations must be found. It is unlikely that the solutions adopted will differ from those that characterized the evolution of similar organizations in the West.⁹

(c) Even in those countries where military coups have been justified on grounds that civilian governmental and political party leaders have illegally drained the public treasury, the military leaders have shown that when it comes to corrupt behavior, they take back seats to no one. Limiting cases of this structural aspect of corruption are perhaps found in Latin

America; but they also abound in Africa and Asia, where a military uniform is certainly little guarantee of greater public morality.

(d) An even more pernicious structural condition that encourages corruption, and one that is often overlooked by international lending institutions, is the sheer powerlessness of many governments. Westerners in particular fall into the posture of believing that if a national government exists, it should be able to keep domestic corruption in check. However, in many countries—today as well as in past years—it is already a near miracle if a national government can boast a minimally effective police force, to say nothing of a national bureaucracy capable of collecting taxes in a systematic way. In these circumstances, even were public authorities inclined to enforce existing laws against corruption, they simply lack the manpower, the sophistication, and the institutional means of doing so (LaPalombara, 1971, pp. 205–32).

(e) It must be added that in many countries of the developing world, and perhaps even more so in countries of Eastern Europe and the former Soviet Union, public morality is certainly not encouraged by the hordes of carpet-baggers who have invaded them from the outside in search of golden business opportunities. In the midst of local situations that border on anarchy, thousands of enterprising businessmen from the West, too many of them just plain sharp operators, have arrived to cash in on quick-and-dirty deals that typically carry all of the hallmarks of corruption. Many of these selfsame persons return to their own countries to recount “horror stories” of how impossible it is to do business in places where everyone has his or her hand out, or where “contracts” of whatever degree of moral dubiousness cannot be depended upon or enforced.

The conclusion to draw here is self evident. If corruption is to be managed and/or reduced anywhere, at least two necessary conditions must be met. First, the state must be a credible enforcer of laws—not merely of the law of contracts

but the criminal laws as well. The criminal laws would address not only organized crime but also types of white-collar crime with which a great deal of contemporary political corruption is associated.

Second, persons and organizations in the private sector must refrain from tendencies to use access to and influence over governments as a comparative advantage in the market place. Where either of these conditions is wanting, there will almost certainly develop an informal and perhaps extra-legal system of power and influence that degenerates into corrupt behavior.¹⁰

The laws against corruption, therefore, must be assessed not abstractly but rather within the historical, cultural, institutional, and, therefore, existential context in which they emerge. This is neither an argument for legal or ethical relativity nor an anthropological *reductio ad absurdum*. Some norms of human behavior obviously extend very broadly in time and space and are universally condemned. Similarly, there is manifestly an enormous difference between offering a village magistrate a small gift in appreciation of a decision made in one's favor and, say, the wide-spread practice of kicking back five, ten, or fifteen percent on a large-scale project involving public procurement.

This being said, it remains an important consideration whether, whatever may be the range of behavior defined as corrupt in any political jurisdiction, governmental authority has the necessary human and organizational capability to deal adequately with the problem.

Additional Aspects of Corruption

What I have said thus far relates to much broader questions about society and polity, the state and civil society, and many other issues that are treated by political philosophers. Benjamin Constant, cited earlier, ties corruption in mass

democratic societies to man's acquisitive impulse. This impulse is said to be so dominant that questions of ethics or morality ill serve to bring it under control.

Similarly, in a Hobbesian world, self-interested behavior is at the center of human interaction—so much so that only a sovereign Leviathan can hope to keep its excesses in check. From such a premise, there proceed many assertions about the incidence of corruption in international political, economic, and other relationships. Not the least important of these, in the community of international business, is the assertion that the concept of corruption is necessarily relative, necessarily bounded by separate national territories and authorities. In corporate board rooms, this observation easily leads to rationalizations for the behavior of managers abroad that would not be tolerated at home. I will return to this matter below.

Another school of thought, of which Charles Lindblom is perhaps the most eloquent contemporary exemplar, alerts us to one of the reasons why societies may show either similar or differing orientations when it comes to specifying what is or is not to be considered corrupt. Lindblom argues, for example, that in market economies such as the United States, the business community comes to develop such a degree of dominance or hegemony that it manages to generalize for society as a whole values and norms that fundamentally serve the interests of business. In effect, those who manage to win the political struggle for power wind up writing the rules for the system involved (Lindblom, 1977).¹¹ In so far as this is in fact the case, we can understand why, without falling into philosophical relativism, definitions of corruption would tend to vary across time and space.

It is not my purpose here to grapple directly with any of the above formulations. Rather, in pursuit of the aims set for this paper, I will add a number of additional empirical observations about striking aspects of corruption.

First, although cultures and countries differ, they now tend universally to agree that corruption is probably present when:

- Votes are purchased, ballot boxes are stuffed, or electoral results are falsified, often in exchange for material considerations.

- Bureaucrats deviate from their formally defined public roles and, for material or similar reasons, favor one individual, group, or organization over another.

- Public officials, in any sphere, reach decisions and make allocations in exchange for material inducements offered by persons or organizations in civil society.

- Public officials require that those in civil society with whom they interact make material payments for what would otherwise be theirs as a matter of constitutional right or public policy.

- Public moneys are illegally converted to private use, including use by political parties.

- Public moneys are paid to persons or organizations in feigned exchange for services provided by the latter to agencies or branches of the state.

These are simply specifications of the working definition of corruption provided earlier. Details of behaviors that fit one or more of the above categories seem unnecessary. Not only are the categories universal; the “technology” of corruption, that is, the ways and means of making corrupt ambitions real, is widely known to practitioners world wide. Where this may not be so, post-Communist events in Eastern Europe demonstrate that the technology is readily transferable.

Second, one of the deeply troubling aspects of many of these practices is that when they occur in the private sector, and no public official or authority is involved in the transaction, they may well be considered entirely legitimate. For example, what the private sector defines as “brokerage” is typically called “influence peddling” when it involves persons and agencies of government. Today, the proliferating number of law and consulting firms that specialize in bringing buyers and sellers together does not limit this activity to the private sector. It could not be otherwise given that, in most countries, the single most important buyers of goods and services are the

nation-state and its sub-divisions. In these circumstances, it is increasingly difficult for both the firms and their clients to find unequivocal boundaries that separate legitimate actions from corrupt ones.

In market economies, persons who may "corner" a particular product or process, information, or access to decision-makers not only collect rents on these competitive advantages, they are also typically regarded as astute business persons who deserve admiration. Where similar behavior occurs in the public sector, however, evaluations change: the persons so involved are accused of "influence peddling" or worse; and some of them actually wind up in jail. It is unlikely that any society can successfully maintain such a double standard of ethics and morality over long periods of time.

Third, nationalism is also a factor that sometimes invites corruption. A very good example would be "tied aid," a practice whereby a rich country that provides financial and economic assistance to a poor one also makes it plain that in the expenditure of the funds or credit provided, the latter country must favor the financial, commercial, and manufacturing firms of the donor. The media rarely if ever refer to this practice despite the fact that although it does not create *ipso facto* corruption, it certainly opens the door to it.

Nationalism can also encourage corruption *within* developing countries that are multi-ethnic or multi-racial. In many of these, laws are often passed that make it difficult or impossible for some of these minorities legally to own property or to engage in business and commerce. The Chinese in several Southeast Asian countries and persons from the Indian subcontinent who reside in other Asian or African countries are prime examples of such discriminated minorities. Precisely because they are already in business and commerce, and/or because they are wealthier than others, they typically find the ways and means, almost always corrupt, of overcoming this type of handicap.¹²

Fourth, as many writers have noted, the very size and scope

of governments in the twentieth century have generated a cornucopia of opportunities to fall into corrupt behavior. In bygone years, when governments provided policing, defense, public education, tax collection, and little more, opportunities were more limited. There were acts of corruption then, too, but not on the scale that becomes possible in an era of the regulatory-and-welfare state. In effect, it is the scale and scope of government, and not whether or not the masses participate in politics, that brings about a quantum change in the opportunity structure of corruption.¹³

Another way to think about this change is to consider what proportion of a country's gross domestic product today passes through the institutions and hands of government as opposed to one or two generations ago. To be sure, as a Sweden or Norway would attest, this factor in and of itself does not condemn a country to greater levels of corruption. Nevertheless, Scandinavia perhaps excluded, a rough positive correlation does exist between how much of GDP a government gets its hands on and how much corruption emerges.

Big government implies even bigger bureaucracies. Within these vast organizations, many of which administer enormous sums of money and/or are able to determine who becomes or stays rich, the temptations to engage in deviant behavior are often overwhelming. Legislative oversight of these institutions is largely a joke; the ombudsman is generally speaking as ineffectual as are the "whistle blowers"; and the task of strict enforcement of the laws against corruption always borders on the impossible.¹⁴

This problem, endemic to twentieth-century governments, is found in much more virulent form in the less-developed countries. There, the institutions of civil society that might serve as watch-dogs against and brakes on corruption are very weak. Furthermore, many institutions of civil society, like trade unions, the press, and even the universities, are not autonomous vis-à-vis the state but deeply dependent on it. If the state is a country's major employer and main instrument for the

formation of capital and, in addition, it is also the main instrument for the allocation of capital and the material things that capital can buy, the opportunity structure of corruption is essentially wide open.

Another inducement to corruption is *hegemonic politics*. Stated axiomatically, we might say that the incidence of corruption will incline to increase in direct proportion to the number of uninterrupted years the same political party remains in control of government. Obviously, this tendency will be conditioned and moderated from place to place, depending, for example, on the autonomy and role of the press, the powers of oversight and investigation of the legislature and the judiciary, and so on. But the axiomatic principle is a simple extension of Lord Acton's oft-quoted aphorism about the corrupting influence of the mere exercise of power.

Examples of the erosive effects of uninterrupted political power abound. Mexico's PRI is often cited as perhaps a limiting case in modern times. The PRI has ruled that country without interruption for almost seven decades, with corrupting results that have been widely reported in the international press. In Japan, now riven by political scandals, the Liberal Democratic party, only recently unseated, remained in control of the national government for thirty-five years. In that country, the fact that large-scale contributions to the electoral war chest of the LDP were actually legalized did not prevent some of the political leaders and major business-community exponents from entering into other forms of corrupt behavior.

And in Italy, it is no secret that corruption was induced, and indeed institutionalized, during almost fifty unbroken years during which the national government remained in the hands of the Christian Democrats. Some of Italy's industrialists now claim that they were "forced" into these corrupt relationships as a condition of doing business with the state. Be that as it may, it was certainly hegemonic political control that made this corruption possible.

This type of inducement to corruption also applies to the former Soviet Union and countries of Eastern Europe that lived for decades under the hegemony of single Communist parties. There, corruption became an institutionalized aspect of the systems themselves (Montias and Rose-Ackerman, 1981). And the current headlong plunge toward privatization and the free market if anything has intensified corruption, because new opportunities for its exercise have opened up, and there exists little effective governmental authority to deal with this matter (Rose-Ackerman, 1993).

Where political hegemony prevails, where alternations in government cannot or do not occur or do not bring the opposition effectively to power, we will encounter the most pernicious instances of *market corruption*. In this scenario, the state literally sells to the highest bidder the material or symbolic things it controls and allocates. All countries at some point in their development have experienced this type of corruption; the building of railroads in Britain or of railroads and canals in the United States, the development of the steel, petroleum, chemical, and other basic industries in Europe and America offer monumental examples of this form of corruption.

Some may argue that like the rampant pollution of urban centers, depicted by writers as different as Karl Marx and Charles Dickens, corruption is a necessary condition for the development of capitalism. Be that as it may, it would be astonishing were the creation of market systems in the less developed world or in countries ruled until recently by communist parties to proceed along paths that are less strewn with examples of corrupt relationships between entrepreneurs and representatives of the state.

Business Ethics and Corruption

It is worth recalling that where corruption as I have used it in this paper is concerned, "It takes two to tango!" Too often,

our discussions and moral outrage about corruption focus exclusively on the miscreants in the public sector. This is perhaps natural in that it is to the deviation from norms that pertain to the public sector that our attention is directed.

But corruption encompasses both *extortions* practiced by public servants and *bribes* offered by those who do business, any kind of business, with government and its representatives. In the former communist states, or where democratic states become highly regulatory, those who wield governmental power often exercise a form of monopoly power, which provides structural opportunities for extortion that are, to say the least, highly tempting. Similarly, in market economies where the profit motive is glorified, where the professional mobility of managers hinges more and more on how well they perform in the short run, and where professional competition is severe and investors develop excessive expectations regarding returns on their invested capital, the temptation of businessmen to engage in questionable behavior—including corruption—can easily dominate all other considerations (Rose-Ackerman, 1978).

Where either or both of the above conditions prevail, the probability that a corrupt symbiotic relationship will be created between public officials and their “clients” takes a quantum leap. Thus, the other side, say, of a venal bureaucracy or legislature would be an equally venal business enterprise that decides to develop a competitive edge through the use of bribes.¹⁵

The broader problem of ethics in the business community of course goes much deeper than bribes. In recent years, we have witnessed in investment, banking, manufacturing, marketing, and other business-related operations behaviors that although not necessarily corrupt in the strict sense of the definition we are using, nevertheless create the widespread impression that the violation of law, or of ethical norms, has become an integral part of commercial and industrial life. One thinks of such practices as insider trading, oligopolistic price setting,

transfer pricing, tax havens, the willful marketing of dangerous products or illegal disposal of toxic waste, and so on. The strategic use of corporate funds in electoral campaigns might also be placed in this same category. One can ask, not just rhetorically, whether we can really expect those who hold public jobs to be any more ethical in their behavior than are representatives of the communities of business and finance (Ross, 1992), and other sectors of civil society.

There is also the quite riveting case of the behavior of business enterprises, both indigenous and foreign, in the developing world. This is not the place to explore this matter in detail. It is, however, germane to point out that the debates as to how best to confront this problem go back many decades and were intensified during the last two decades (Barnet and Muller, 1974; Behrman and Grosse, 1970; Biersteker, 1978). Organizations like the International Chamber of Commerce, the International Labor Organization, the Organization for Economic Cooperation and Development have all produced "voluntary guidelines" for multinational corporations that operate in host countries, as well as for the governments of both host countries and the countries in which these firms are headquartered. The United Nations itself has tried, not with remarkable success, to write an overall code of conduct for such business enterprises. On the whole, these codes of conduct, as well as the corporate "codes" that proliferated in the 1970s, have had, at best, only a marginal effect on the incidence of corruption in economic transactions.¹⁶

Even where there appears to be universal agreement as to the need to condemn both bribery by business enterprises or extortion by public officials,¹⁷ nothing has yet appeared with any teeth in it that can deal with this matter. Indeed, United States efforts during the Carter administration to foster a binding international treaty on bribery and corruption have thus far come to naught, in part because Jimmy Carter's enthusiasm for such a charter was not matched by either Ronald Reagan or George Bush. As of this writing, the United

States is the only country that has put something as stringent as the Foreign Corrupt Practices Act on the books.

The developed world requires more of this type of legislation. It is, after all, presumably much better equipped than are other countries to police deviant behavior in transactions between the private and the public sectors, overseas as well as at home. The situation regarding corruption is now such that some writers have actually suggested that it would be a good idea were some of the less-developed countries to be returned to a kind of trusteeship, designed primarily to bring corruption under control. This is obviously a highly delicate and potentially volatile issue that must be treated with all of the caution and finesse it deserves. But the situation is anything but promising. Among other problems, there is the question of with whom, in so many of the less-developed countries or the countries of Eastern Europe, one would raise this matter in the first place.

One step in the direction of reform has been taken with the creation of Transparency International (TI) in 1993, headquartered in Berlin and financed by a number of Western governments and industries. Another involves a statement on corrupt practices recently adopted by the OECD. The statement itself notes that only a few of the OECD member countries "have specific laws making the bribing of foreign officials a punishable offense;" it urges these states to correct this situation; and it "appeals to non-member countries to join with OECD Members in combating bribery in international business transactions. . . ." (OECD, 1994).

This is manifestly a step in the right direction but a relatively modest one. For example, it leaves unresolved the question of an international treaty on corruption urged by Jimmy Carter, and it skirts the issue whether it would make sense for all of the OECD member nations to adopt something similar to the United States Foreign Corrupt Practices Act. The truth is that corruption pays, particularly in circumstances such as those touched on in the present paper. Transparency International,

which describes itself as "the coalition to curb corruption in international business transactions," may have emerged at an opportune moment; but the struggle to achieve even a modest approximation of its ambitious and admirable goal will, for some time to come, remain steeply up-hill.¹⁸

One way to confront this problem might be that preferred by some economists or other social theorists whose analytical models are of the "rational-actor" variety. Susan Rose-Ackerman (Rose-Ackerman, 1978; 1994), for example, suggests that beyond vigorous law enforcement, states can devise policies that actually reduce the benefits that would otherwise derive from corrupt behavior. In addition, her notion is highly suggestive that it might help if bureaucrats were not permitted to exercise near-monopoly authority over a number of things the state can give or must acquire. In short, if you really aim to modify corrupt behavior, change the conditions of the market!

Another approach to this problem is reflected in the increased attention to ethics that the business schools of the United States have of late introduced into their curricula. This step, too, is in the right direction, and, indeed, there is an impressive and growing literature that addresses this fundamental issue (Donaldson, 1982, 1989; Hoffman, 1986; Freeman, 1984). Indeed, the *Journal of Business Ethics* (born in 1982) contains numerous contributions that seek to make a point that, were it possible to demonstrate it as true, many corporate managers would find highly attractive. It is that ethical behavior that in the long run carries at least as many benefits to the manager and the corporation as does its antithesis.

Even among these well-meaning writers, however, one encounters the disquieting, even if highly realistic, willingness to compromise. Thus, one leading advocate of higher levels of corporate morality allows that where the corporate manager overseas finds it an insuperable condition of doing business overseas to violate ethical norms or the laws against corruption that exist in his or her own home state, this is acceptable

provided that "the multinational company should make its disapproval of the practice known" (Donaldson, 1989, p. 105).¹⁹ It is hard to imagine that any American company, to say nothing of those in Europe or Japan, would make such advice part of their day-to-day operations.

At best, any campaign to reform the operational codes, if not the abstract norms, that inform business practices will remain a long-term proposition. It would require, for example, much more transparency, if not in the conduct of business then in the type of post-hoc information that business enterprises and financial institutions make available to governments or governments provide to the general public.

The troubling condition that besets business representatives, as well as those in public roles with whom they interact, is everywhere existential: behavior in the public sector—where corruption of the kind we have discussed is found—is not likely to be any more (or less) ethical than the norms that govern society at large. However, given the salience, indeed the centrality, of the business community and enterprise in now-proliferating market systems, we might hope that any semblance of real reform in that area will have salutary spillover effects on the other major institutions of the state and civil society.

Notes:

¹ The structural aspects of corruption are delineated nicely by Sapelli (1994), especially Part II.

² Constant argues, in effect, that if the masses are given political rights, they will use these aggressively to acquire property, which becomes in itself an impulse to corruption. Pareto also underlines structural conditions that lead to corruption in mass societies. See Constant, 1957, p. 1113; Pareto, 1964, pp. 277–78, 691–92.

³ For a level-headed view of political corruption, the origins of it in Western countries, and the forms it assumes over time in the less developed world, see Scott, 1972.

⁴ There was, of course, all manner of other corrupt behavior as well. In this regard, see Fried, 1973.

⁵ Many of the items covered in this section are nicely treated by several of the authors in Heidenheimer, 1978.

⁶ Samuel Huntington (1968, pp. 63–4) argues that corruption in the developing countries is a normal aspect of political and economic modernization. There is an implied double standard here that is unacceptable on both moral and empirical grounds. See LaPalombara, 1974, p. 403.

⁷ A generation ago, undergraduates in political science courses often learned about the subtle ways of corruption in the pages of Riordan, 1963.

⁸ It is not clear that such severe measures, particularly if they were enforced, were always in the interest of the less-developed countries. See, for argumentation to this effect, Abueva, 1966; Leff, 1964.

⁹ In this regard, it is worth remembering that in the first “New Nation,” namely, the United States, the Spoils System of the Jacksonian era followed immediately on the enlargement of the franchise, and that America’s “machine politics” and the kinds of political patronage that went with it persisted until just a few decades ago. Indeed, vestiges of it are still very much alive in America’s major urban centers.

¹⁰ This is much easier said than done, particularly in situations where the so-called rational actor calculates that the benefits that derive from such behavior considerably outweigh the costs. I touch on some aspects of this problem in the concluding section of this paper.

¹¹ An important precursor of Lindblom, particularly in the sense of delineating the mutual essentially symbiotic relationship between state and industry, is Shonfield, 1965. Cf. Sapelli, 1994, Ch. 6 for the view that corruption is fundamentally a matter of the firm or of the organized enterprise.

¹² Malaysia, for example, has passed legislation specifically designed to assure that a lion’s share of industrial ownership will be reserved for the Malays, or Bumiputras, as opposed to the Chinese and the Indians. Vietnam also has attempted to use law to force the Chinese minorities there out of the rice business.

¹³ The point here obviously has to do with the sheer *size* of the bureaucratic apparatus that emerges with the welfare state; the *relative power* of bureaucracies in countries where the market is absent and/or the institutions of civil society are weak; and the *kinds* of

matters over which the bureaucrats have jurisdiction, including the power to make purchases, award contracts, and so on. See, for example, Braibanti, 1962; LaPalombara, 1974, pp. 402–17; Rose-Ackerman, 1991; Montias and Rose-Ackerman, 1981; Heidenheimer, 1978.

¹⁴ The language of the social sciences sometimes puts the matter of bureaucratic tendencies toward corruption entirely too delicately as, for example, when writers differentiate between the “principled” and the “expediency” interests of civil servants. See, for example, LaPalombara, 1963; 1967, especially the chapters by Fritz Morstein Marx, Shmuel N. Eisenstadt, and Fred Riggs.

¹⁵ The treatment of corruption, and bribery in particular, as a form of economic calculus and transaction is treated in depth by Rose-Ackerman (1978). An important objection to the use of economic or utility-maximization models as analytic interpretations of corruption is registered by Pizzorno (1992). He asks, for example, how one would explain the *absence* of political corruption where the benefits to be derived from a corrupt act are high and the risk of discovery and punishment very low.

¹⁶ This assertion no doubt would be challenged by those who argue that corporations (at least in the United States) take these codes and the matter of “social responsibility” quite seriously. However, if we are to draw any inference at all from the admittedly unsystematic data available to us in the leading financial press, it would be that corporate misbehavior (including acts of corruption) has markedly increased in recent years. How else to explain the sharply increased attention to “corporate ethics?”

¹⁷ Of course, even here agreement is anything but universal, particularly among those, including professors of business, who do not flinch at the idea that if beating the competition requires corrupt behavior, the corporate manager should not refuse to accept this existential condition. See the treatment of this issue by Donaldson (1989, pp. 40–1).

¹⁸ Not the least vexing aspect of Transparency International's program is the fact that more than one of the firms that have helped to launch the organization have been reported (more than once) as having engaged if not in corruption, then certainly in illegal transactions and/or unethical behavior.

¹⁹ Donaldson, whose book is an eloquent statement of the problem of business ethics in a complex international environment, also admits that the evidence that ethical behavior on the part of the firm

pays dividends is, at best, sketchy. Nevertheless, he pleads, "This does not mean, however, that we should abandon hope for establishing a positive correlation between ethics and multinational business success" (Donaldson, 1982, p. 147).

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